



HF 2104 – Unemployment History Factor (LSB 5344HV)

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Fiscal Note Version – New

Requested by Representative Patrick Murphy

Description

[House File 2104](#) decreases the years of experience used to calculate the benefit ratio for an employer's contribution rate for unemployment insurance from five years to three years.

Background

The Iowa Unemployment Compensation Trust Fund is established within the Treasury of the United States and contains the deposits from State and federal unemployment taxes. State unemployment compensation tax is collected by Iowa Workforce Development (IWD) and deposited to a State fund before being transferred to a federal account outside the State accounting system. The current method for assessing an employer's State tax rate was created by the General Assembly in the 1987 Legislative Session (SF 507 Benefit Ratio Unemployment Compensation Contribution Array System Act).

Under this system, the past five-year average of benefits paid are compared to the five-year average taxable wage base to produce a benefit ratio. All eligible employers are then ranked in relation to their respective benefit ratios from lowest to highest and the list is divided into 21 ranks, each containing approximately 4.8% of the total taxable wages reported by the employers. An estimated 59,000 employers are eligible for the benefit ratio system in calendar year 2012.

For more information on how Iowa's Unemployment Compensation Trust Fund works, please see the [Fiscal Topic: Iowa's Unemployment Compensation Trust Fund](#).

Assumptions

The following assumptions were used:

- The IWD will require a one-time expense of \$10,000 for an Information Technology contractor for programing.
- An estimated taxable wage base of \$24.2 billion and the current benefit ratio data for employers for rate year 2012.
- The mathematical formula to calculate and select the rate table will not change.

Fiscal Impact

There is no impact to the General Fund.

With the decrease in the number of years used in the calculations for chargeable benefits, an employer will have a smaller base in the benefit ratio calculation in the event that a one-time experience caused more chargeable benefits, and placed them in a higher tax rate rank. However, less time would be required to elapse before the one-time experience falls off of the employer's record, allowing them to go down the tax rate table ranks more quickly.

Because employers are more likely to have three years of no benefit charges compared to five, the higher tax rate tables (1-5) will have \$500,000 less in revenue power. Using the same wage

base and benefit ratio data for employers, the change would have the projected impact on the rate tables in the following manner:

Rate Table	Average Contribution Rate	Estimated Contributions Current Law	Estimated Contributions HF 2104	Estimated Effect of HF 2104
1	3.50%	\$ 847,000,000	\$ 846,500,000	\$ -500,000
2	3.20%	774,400,000	773,900,000	-500,000
3	2.80%	677,600,000	677,100,000	-500,000
4*	2.40%	580,800,000	580,300,000	-500,000
5	2.00%	484,000,000	483,500,000	-500,000
6	1.60%	387,200,000	387,200,000	0
7	1.20%	290,400,000	290,400,000	0
8	0.90%	217,800,000	217,800,000	0

*Current Rate Table in use for calendar year 2012.

However, the rate table selection formula remains unchanged and would still select the Rate Table that would generate the estimated amount of contributions necessary for the Trust Fund to meet estimated demand. The following are possible scenarios that impact Rate Table selection:

- When the Trust Fund balance goes up, the tax rates go down.
- When the prior year wages go up, the tax rates go down.
- When the total wages paid in the high year goes up, the tax rates go down.
- When the total benefits paid for the highest year goes up, the tax rates go up.

Current projections by the IWD show the paid benefits trending downward by 10.0% in calendar year 2012, remaining constant through calendar year 2013, and trending upward by 10.0% in calendar year 2014 due to covered employment wage growth. These projections also assume wage and covered employment growth. If this bears out, the Trust Fund balance would continue increasing, with the Rate Tables decreasing, and could be projected in the manner below.

Fund Balance (\$ in millions)							
Rate Table	Calendar Year	Current Law		Estimate Effect HF 2104			
		Deposits	Fund Balance	Deposits	Fund Balance	Deposits Difference	Fund Change
3	2011	\$ 657.50	\$ 494.90	\$ 657.50	\$ 494.90	\$ 0.00	\$ 0.00
4	2012 p	599.40	683.80	599.40	683.80	0.00	0.00
5	2013 p	517.00	801.90	516.50	801.40	-0.50	-0.50
6	2014 p	431.50	793.90	431.50	793.40	0.00	-0.50

p: Preliminary estimates

However, if more unemployment benefits were claimed than the contributions coming in or wage and employment growth stagnated, then the Rate Tables could remain constant or go up depending on the projected need of the Fund.

Governmental entities have their own array tax system and would not be affected by this bill.

The costs associated with the Information Technology Contractor would be paid by the Trust Fund from the amount allowed for administration.

Source

Iowa Workforce Development

/s/ Holly M. Lyons

January 31, 2012

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Iowa Code section 2.56](#). Data used in developing this fiscal note, is available from the Fiscal Services Division of the Legislative Services Agency upon request.
